UNITED STATES DEPARTMENT OF AGRICULTURE
U.S. COMMODITY STABILIZATION SERVICE

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ACQUISITION AND DISPOSAL OF THE CCC PRICE-SUPPORT INVENTORY

The Commodity Credit Corporation, through its price-support program, acquires stocks of various farm products. These stocks in the aggregate are referred to as the "price-support inventory." The price-support inventory has been very large in recent years, having, on January 31, 1956, a cost value of $5,920,000,000.

A large inventory creates several problems. For example, it has a depressing effect on market prices. It increases possibility of waste through deterioration or spoilage. It runs up heavy storage charges. Consequently, CCC must continuously seek useful outlets through which it can dispose of its holdings.

Commodities from the price-support inventory are disposed of in various ways. Some are sold in the United States. Some are sold in export channels--both for dollars and foreign currencies. Some are transferred to other Government agencies for such uses as feed supplies for drought areas, food for the American armed forces, and foreign relief feeding. Some are bartered for materials produced abroad. Substantial quantities of perishable commodities have been donated to school lunch programs and, through approved welfare organizations, to needy people in the United States and abroad.

HOW THE PRICE-SUPPORT INVENTORY IS ACQUIRED

The price-support inventory is a "by product," so to speak, of the program undertaken by CCC to support agricultural prices. In carrying on the price-support program, CCC acquires its inventory in two principal ways:

1. Through the "take-over" of commodities pledged as collateral for price-support loans.

Price-support loans to producers are "nonrecourse"; that is, producers are not obligated to make good any decline in the market price of the commodity put up as collateral. For example, the producer who obtains a loan on wheat at $1.81 a bushel would not be obligated to pay off his loan even though the market price of wheat when the loan falls due should be only $1.75. If the quality and quantity of wheat put under loan has been maintained, he can deliver to CCC the wheat put up as collateral, or turn over warehouse receipts showing ownership of the wheat, and thereby discharge his obligation in full. The wheat, corn, cotton, and other commodities so acquired by CCC go into the price-support inventory.

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2. Purchases--either from processor or handlers or from producers in connection with purchase agreements.

Prices of some commodities are supported through purchases. For example, prices of butterfat and of milk for manufacturing use are supported through purchases of butter, cheese, and nonfat dry milk solids from processors and handlers. Commodities and products purchased also go into the price-support inventory.

CCC also enters into purchase agreements with producers of certain commodities, principally grains. In the purchase agreement, CCC commits itself to buy from the producer at a stipulated future date, at the producer's option, not more than an agreed-upon quantity of a commodity at the support price. Commodities purchased under this method of support likewise end up in the price-support inventory.

Type of Commodities in the Inventory

Occasionally, people have an idea that the commodities in the price-support inventory are about the same as the foods stocked by a supermarket --fresh fruits and vegetables, canned goods, meats, preserves, and other staples. This impression is erroneous, of course.

First of all, a big percentage of the inventory value is represented by commodities that are not foods at all. At the end of January 1956, non-foods such as cotton, wool, and naval stores had a value of $1,772,000,000, or 30 percent of the total. Second, many of the "food" commodities, such as wheat, corn, oats, and rye are stored in raw, bulk form and require considerable processing before they can be used for food. About the only food commodities that could be put to immediate consumer use without processing are dairy products, dry edible beans, and rice. Even these items are generally packed in large commercial-size containers and, for general consumer use, must be repackaged.

The following tabulation shows commodities in the price-support inventory as of January 31, 1956, and their cost to CCC:

Commodity	Quantity in inventory	Cost
Wheat	871,691,644 bushels	$2,365,769,709
Cotton, upland	7,689,441 bales	1,398,516,774
Corn	746,698,536 bushels	1,287,743,110
Rice, rough and milled	14,812,447 cwt.	171,229,478
Cheese	321,829,892 pounds	126,649,088
Wool	132,034,341 pounds	89,837,777
Butter	135,345,797 pounds	81,057,412
Grain sorghum	21,583,326 cwt.	63,648,548
Cotton linters	441,985,164 pounds	42,513,119
Barley	26,255,221 bushels	37,982,242
Cotton, extra lg. staple	92,778 bales	33,850,374
Oats	32,590,288 bushels	27,948,848
Dried milk	123,441,680 pounds	21,480,005
Other	xxx	171,852,322
Total		$5,920,078,806

"Other" items in inventory included butter oil, whey, dry edible beans, cottonseed meal, flaxseed, rye, field seeds, soybeans, rosin, gum-turpentine, refined cottonseed oil, linseed oil, peanuts, tung oil, and tobacco, the largest of which was rosin with a cost value of $21,423,326. Also included in "other" were strategic and critical materials valued at $98,723,076 which have been acquired through barter for anticipated eventual transfer to the National Stockpile.

Location of the Inventory

CCC's price-support inventory is stored in no one place. Wheat, for example, is stored in commercial elevators in producing areas and terminal markets; in CCC-owned bins; and even in 373 idle Maritime Commission ships, which are providing storage for 85 million bushels in New York, Virginia, and the Pacific Northwest. Corn is stored largely in CCC-owned bins on "bin sites" in the Corn Belt. Cheese, held only in commercial cold storage warehouses, is stored in widely scattered locations, although the biggest concentrations are in the Southern Wisconsin, Chicago, Kansas City, Detroit, and New York City areas. Cotton is warehoused in the South, primarily. The largest wool holdings are in the Boston, Mass., area.

Part of the "Carryover" Is in the CCC Inventory

Not all the commodities in the CCC inventory should be considered "surplus." Part of the commodities represent stocks that normally end up as "carryover" in the hands of producers and the trade. In recent years, the tendency has been for a larger proportion of total carryovers to be held by CCC, and private traders have been carrying smaller stocks than otherwise would be necessary. The CCC inventory also includes certain proportions--over and above normal carryover requirements--that may be considered desirable from the standpoint of reserves against possible national emergencies.

Problems Created by a Large Price-Support Inventory

Supplies of some commodities, however, have been far above any foreseeable needs for carryovers or emergency reserves. These big supplies create a number of serious problems. A heavy supply of a commodity, either in Government or private hands, puts a strong downward pressure on prices. Second, large stocks always pose the danger of waste, through deterioration or spoilage, especially in the case of perishable commodities. Third, as pointed out earlier, big supplies mean heavy storage costs, which are now averaging about $800,000 a day. Finally, disposal of large inventory holdings, because of changes in price levels and deterioration, can result in substantial financial losses to CCC.

The latter point--financial losses--deserves amplification.

Some losses are unavoidable. For example, when the market price of a commodity drops, the actual value of each unit of that commodity in the CCC inventory also declines, which results in losses when the commodity eventually is disposed of. Then, too, there is the matter of "keepability." To avoid spoilage, CCC is donating considerable quantities of dairy products to school lunch programs and to agencies administering relief programs in the U. S. and abroad. A few years ago, potatoes (not now supported) were sold at nominal prices for use as livestock feed and manufacture of starch and alcohol; and dried eggs (also not now supported) were donated to school lunch programs and sold at low prices abroad. Altogether, CCC's losses on dairy products, potatoes, and eggs have totaled $1,627,000,000 over the period October 1933-January 1956, an amount equal to 57 percent of the net losses of $2,843,000,000 incurred on all supported commodities over the same period.

WHY DISPOSAL OUTLETS ARE HARD TO DEVELOP

Occasional letters to the Department of Agriculture ask, "If you have too much wheat in your inventory, why don't you copy the practice of any well-managed department store--hold a 'bargain sale' and clean out your surplus?" This question highlights one of the reasons behind the fact that disposal programs for the CCC price-support inventory are hard to develop.

Domestic Sale Problems

Domestic "bargain sales" of storable CCC-owned commodities are prohibited by Section 407 of the Agricultural Act of 1949, a common-sense provision which directs CCC to establish prices, terms, and conditions that will not discourage or deter manufacturers, processors, and dealers from acquiring and carrying normal inventories of the current crop. For example, a flour miller would probably be "discouraged or deterred" from buying and storing 1956-crop wheat in June at $1.81 a bushel if he had good reason to believe that in October he could buy wheat of the same quality from the Government for $1.75 a bushel.

Section 407 contains another sensible directive--that CCC shall not sell any storable commodity at less than 5 percent above the current support price for the commodity, plus reasonable carrying charges. The idea behind this provision is obvious. If CCC is supporting wheat at $1.81 a bushel, CCC sales of wheat at $1.75 would drive market prices down, which would mean increased support activity, more wheat coming into the inventory, more sales, and so on. The same principal holds for other commodities in the inventory.

(There are some exceptions to these general restrictions. Section 407 permits sales for new or byproduct uses; sales of peanuts and oilseeds for extraction of oil; sales for seed or feed if the sales will not impair current price-support operations; sales of commodities that have deteriorated or which are in danger of deterioration or spoilage; sales to establish

claims; sales for export; sales of wool; sales for other than primary uses; and sales of out-of-position stocks, odd lots, and stocks of questionable continued storability.)

Export Sale Problems

Commercial export sales are not subject to any legal price restrictions; nevertheless there are obstacles to selling surpluses abroad. Some of these are:

1. Importing countries have stepped up their agricultural production, thus causing a lower total world demand for some products than in the years immediately following World War II.

2. Price competition is keen and there is always the possibility that other exporting countries--some of which have surplus problems of their own--may match or shade any export price the U. S. may establish.

3. Foreign peoples prefer their traditional foods. For example, rice has been the staple food of some countries for hundreds of years, so those countries are not good customers for wheat, which is CCC's biggest surplus problem.

CCC must always be sure that its export sales are not made in such volume as to demoralize world markets or to affect adversely the economy of any friendly country. Furthermore, CCC must make sure that its sales represent additional exports and do not displace regular commercial exports.

Donation Problems

There even are practical handicaps to the donation of food commodities for welfare purposes. School lunch and direct distribution outlets are not large enough to absorb all the food commodities, including wheat, now held by CCC. As for foreign relief donations, there is the problem of paying for ocean transportation of the foods and of distributing them overseas. Also, when it comes to some foods such as nonfat dry milk solids, which are not used extensively abroad, considerable educational work must be done before their use can be expanded significantly.

HOW THE PRICE-SUPPORT INVENTORY IS DISPOSED OF

In spite of the problems involved, CCC has been making good progress in finding outlets for commodities in the price-support inventory. In the calendar year 1955, total disposals--on a "commitment" basis--had a value of $1,588,000,000 and moved into consumption through the following channels:

Commercial domestic sales	17.3 percent
Commercial export sales	32.8 "
Non-commercial sales	.4 "
Transfers (mainly to other agencies)	8.4 "
International barter	16.9 "
Donations	24.1 "
Fire, spoilage, theft, etc.	.1 "
Total disposals	100.0 "

(Detailed information on disposals by commodities, type of outlet, quantities, and dollar returns is contained in the monthly report, "Disposition Commitments of CCC Commodities." This report may be obtained upon request from the Commodity Stabilization Service, Washington 25, D. C.)

The following sections describe the way in which the various disposal programs operate:

Domestic Commercial Sales

About the first of each month, the Commodity Stabilization Service issues a "Monthly Sales List," containing information on CCC-owned commodities available for sale. The October 1955 listing for Cheddar cheese shown below illustrates the type of information furnished with respect to domestic sales prices:

Cheddar cheese Cheddars, flats, twins, and rindless blocks (Standard moisture basis in carload lots only)	U. S. Grade A and higher: 36-1/4 cents per pound, for N. Y., N. J., Pa., New England, and other States bordering the Atlantic and Pacific Ocean and Gulf of Mexico. All other States 35-1/4 cents per pound.
268 million pounds	U. S. Grade B: 1 cent per pound less than Grade A prices. All prices are subject to usual adjustment of moisture content. Prices apply "in store" at location of stocks. ("In store" means at the processor's plant or warehouse but with any prepaid storage and out-handling charges for the benefit of the buyer.) Available Cincinnati and Portland CSS Commodity Offices.

(Of total disposals in the calendar year 1955, domestic commercial sales represented $275,000,000 or 17.3 percent of the total.)

Export Commercial Sales

The "Monthly Sales List" also shows quantities available; the price, in terms of grade and location; and other information with respect to commodities offered for export sale. The October 1955 list contained, for example, the following information on cheese available for export sale:

Cheddar cheese Cheddars, flats, twins and rindless blocks (Standard moisture basis in carloads only)	U. S. Grade A:	25.5 cents per pound, basis port of export.
	U. S. Grade B:	24.5 cents per pound, basis port of export.
268 million lbs.	The above commodity is available through the Livestock and Dairy Division, Commodity Stabilization Service, U. S. Department of Agriculture, Washington 25, D. C. Cheese prices are subject to usual adjustments for moisture content.	

Prospective buyers can obtain Monthly Sales Lists by addressing inquiries to the Commodity Stabilization Service, USDA, Washington 25, D. C.

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Foreign Currency Legislation: A considerable volume of commodities is moving into export channels under the Agricultural Trade Development and Assistance Act of 1954, also called Public Law 480, and the Mutual Security Act of 1954, otherwise known as Public Law 665. Both of these acts authorize the sale of agricultural surpluses, including items in CCC's price-support inventory, for foreign currencies. This feature removes one of the big handicaps to an enlarged export trade: Dollar shortages among importing nations.

Public Law 480: Title I, Public Law 480, authorizes, during the period ending June 30, 1957, the sale of surplus agricultural commodities for foreign currencies and establishes an overall limitation of $1,500,000,000 on the amount which may be appropriated to reimburse CCC for commodities moved under the program. This program is carried out through the private trade. The Foreign Agricultural Service is responsible for administering the Department of Agriculture's responsibilities under Title I, P. L. 480.

Title I purchase authorizations totaled about $831,662,000 through March 7, 1956. Detailed information is covered in a periodic report entitled "Report of Title I Operations (Public Law 480)," which may be obtained from the Commodity Stabilization Service, Washington 25, D. C.

Public Law 665: Section 402, Public Law 665, administered by the International Cooperation Administration, provides that for the fiscal year 1956 not less than $300,000,000 shall be used to finance the sale --for foreign currencies--of American surplus agricultural commodities. Transactions under Section 402, P. L. 665, are in addition to transactions under Title I, P. L. 480. Procurement authorizations for agricultural surpluses under P. L.665 totaled $638,000,000 at the end of February 1956.

(Of total disposals from CCC's price-support inventory in the calendar year 1955, commercial export sales amounted to $521,000,000 or 32.8 percent of total disposals.)

Noncommercial Sales

A small volume of commodities from the price-support inventory is sold to foreign governments, international relief organizations, and U. S. groups, which furnish assistance to needy people in the United States and foreign countries. In November 1955, for example, the Department sold 5 million pounds of CCC-owned nonfat dry milk to the Brazilian Government for use in the school lunch program. Also about 3 million pounds of butter oil have been sold to the United Nations Relief and Work Agency for use in feeding operations in the Middle East.

(Noncommercial sales commitments from the price-support inventory totaled about $6,000,000 for the calendar year 1955, or approximately 0.4 percent of total disposals.)

Transfers

Considerable quantities of commodities from the price-support inventory are transferred on a cash reimbursable basis to other Government agencies, which use the commodities in various types of programs.

The International Cooperation Administration used in the calendar year 1955 $75,000,000 worth of commodities, principally grain, cotton, cottonseed oil, dairy products, dry edible beans, and rice, in foreign relief operations in Europe, the Near East, the Far East, and Latin America. Also, dairy products, primarily, were transferred to the armed forces.

Section 32, of Public Law 320, 74th Congress, authorizes the Department of Agriculture to encourage exports and domestic consumption of farm commodities by diverting them from normal channels of trade or by increasing their utilization among people in low-income groups. Transfers from the price-support inventory under authority of Section 32 totaled about $12,000,000 in the calendar year 1955. The commodities transferred, largely cottonseed oil and dry edible beans, were scheduled for eventual use in school lunch programs or distribution to people in low income groups. Section 32 programs are administered by the Agricultural Marketing Service, U. S. Department of Agriculture.

About $43,000,000 worth of grain and cottonseed products were transferred to the drought emergency program, under which the ~~feeds~~ were sold to farmers at reduced prices in designated drought disaster areas.

(Total transfer commitments in the calendar year 1955 had a value of about $133,000,000 equal to 8.4 percent of total disposals.)

International Barter

Commodities from the price-support inventory have been bartered since March 1950 for materials produced in foreign countries. In the calendar year 1955, commodities having a value of about $268,000,000 were committed under barter contracts, the value of the commitments representing 16.9 percent of total disposition commitments.

Agricultural commodities bartered have included most of those held in appreciable quantities by CCC--wheat, corn, grain sorghums, barley, flaxseed, oats, rye, cottonseed oil, cotton, nonfat dry milk, and rice. Wheat has been the principal commodity exported under the barter program, however, accounting for 42 percent of the value of all barter exports in the calendar year 1955. Other commodities exported, in terms of percentage of total value of barter exports, were as follows: Corn, 28; grain sorghums, 15; barley, 10; oats, 2; and all others, 3.

Export destination of agricultural commodities bartered during the fiscal year 1955 included Austria, Belgium, Colombia, Cyprus, Denmark, Egypt, England, Formosa, France, West Germany, Greece, India, Ireland, Israel, Japan, Korea, Mexico, Netherlands, Norway, Peru, Portugal, Spain, Sweden, Switzerland, Trieste, Turkey, Venezuela, and Yugoslavia. Japan has been the largest receiver of barter commodities.

Barter for strategic and critical materials is authorized by the Commodity Credit Corporation Charter Act, as amended, and Section 303 of the Agricultural Trade Development and Assistance Act of 1954. The latter directs the Secretary of Agriculture, whenever he finds opportunity to protect the funds and assets of CCC, to barter CCC-owned commodities for (a) strategic materials entailing less risk of loss through deterioration or less storage charges, (b) materials, goods, or equipment required in foreign economic and military aid and assistance programs, and (c) materials or equipment required for offshore construction programs. Section 303 also directs that agencies of the U. S. Government procuring foreign-produced materials, goods, or equipment are to cooperate in the disposal of surplus agricultural commodities through barter or exchange.

Donations

Frequently immediate sales, transfer, or barter outlets are not available for commodities in the price-support inventory. This situation isn't particularly serious in the case of storable commodities, but when it comes to perishable goods, such as dairy products, there is risk of waste through loss or deterioration. To prevent waste, Section 416 of the Agricultural Act of 1949, as amended, authorizes CCC to donate its food commodities for use both in the United States and abroad.

In the language of Section 416, food commodities may be donated "to the Bureau of Indian Affairs and to such State, Federal or private agency or agencies as may be designated by the proper State or Federal authority and approved by the Secretary, for use in the United States in nonprofit school-lunch programs, in the assistance of needy persons, and in charitable institutions, including hospitals, to the extent that needy persons are served." Food commodities in excess of anticipated disposition for other uses may be donated "to nonprofit voluntary agencies registered with the Committee on Voluntary Foreign Aid of the Foreign Operations Administration or other appropriate department or agency of the Federal Government and intergovernmental organizations for use in the assistance of needy persons outside the United States."

U. S. private welfare organizations participating in foreign distribution of surplus food commodities include American Friends of Austrian Children, Inc., American Friends Service Committee, Inc., American Jewish Joint Distribution Committee, Inc., American Korean Foundation, American Middle East Relief, Inc., American Mission to Greeks, Inc., American National Red Cross, Church World Service, Inc., Cooperative for American Remittances to Everywhere, Inc. (CARE), Foster Parents' Plan for War Children, Inc., Hadassah, Inc., International Rescue Committee, Inc., Iran Foundation, Inc., Lutheran World Relief, Inc., Mennonite Central Committee, Inc., National Council of Young Israel, Save the Children Federation, Inc., Tolstoy Foundation, Inc., Unitarian Service Committee, Inc., United Lithuanian Relief Fund of America, Inc., United Ukranian American Relief Committee, Inc., War Relief Services-National Catholic Welfare Conference, Inc.

CCC is authorized to pay reprocessing, packaging, transporting, handling, and other charges up to their delivery to a Federal, State, or private agency in the case of donated commodities for use in the U. S., or their delivery free along side ship or free on board export carrier at point of export, in the case of commodities made available for use outside the U. S.

In the calendar year 1955, commitments for the donation of Section 416 commodities were as follows: For use in the U. S. $122,000,000 and for use abroad, $238,000,000 making a total of $360,000,000.

The Agricultural Act of 1954 directs CCC to donate dairy products to the Veterans Administration and Army through December 31, 1956, provided such donations are in excess of normal purchases. Donation commitments under this legislation in the calendar year 1955 totaled over $22,000,000.

Total donation commitments--under Section 416 and the Agricultural Act of 1954--amounted to $383,000,000 in the calendar year 1955, or 24.1 percent of total disposals.

Fire, theft, spoilage, etc.

Losses from fire, theft, spoilage, and the like are very small. In the calendar year 1955 such losses amounted to only $2,152,000, or 1/10th of 1 percent of total dispositions, a figure which does not reflect possible recoveries.

OTHER SURPLUS DISPOSAL OPERATIONS

The CCC inventory disposal operations described in this publication cover an important phase of the program to move American agricultural surpluses into useful channels. Other operations are being carried on, however, in this general field.

Expansion of Export Trade

The work of the Foreign Agricultural Service in administering Department of Agriculture responsibilities under Public Law 480 already has been described. FAS also is responsible for building up the overall export market for farm products--not only the products owned by the Government, but also the products that otherwise move through the normal channels of trade.

FAS, for example:

1. Works with traders and foreign governments to remove existing "roadblocks" to foreign trade. This involves matters relating to trade restrictions, market preferences, foreign exchange, and discrimination against American farm products.

2. Provides first-hand information to American agricultural exporters and importers on market situations and trade opportunities.

3. Helps to bring together American exporters and foreign importers under conditions favorable to trade.

4. Analyzes and interprets commodity and trade information for dissemination to American agriculture.

5. Provides American agricultural interests with comprehensive appraisals of foreign production and competition.

These functions are carried out through agricultural attaches and marketing specialists of the Department in cooperation with representatives of producer and trade groups.

Surplus Removal Operations

As already mentioned, Section 32, of Public Law 320, 74th Congress, authorizes the Department of Agriculture to encourage exports and domestic consumption of farm commodities by diverting them from normal channels of trade or by increasing their utilization among people in low-income groups. It also was mentioned that some commodities are transferred from the price-support inventory for Section 32 purposes.

Other surplus removal operations, mainly for perishable commodities, are carried on by the Agricultural Marketing Service under authority of Section 32.

For example, AMS purchases surplus agricultural commodities through regular trade channels from farmers, farmers' agents, cooperatives, and, in some cases, from processors. Commodities purchased are donated through the facilities of State distributing agencies to such groups as schools operating nonprofit school-lunch programs, public and private charitable institutions, tax-exempt summer camps and child-care centers, public or private welfare agencies assisting needy persons, organizations providing disaster or emergency relief.

"Diversion" programs are undertaken to encourage through special payments, the use of the surplus commodity in a different way than would occur without the program. Cotton, for example, has been used for insulation under a special Section 32 program; potatoes have been used for livestock feed and for manufacture into starch; and shipments of pears have been diverted into areas not normally receiving pears during the regular marketing season.

Exports have been encouraged through the payment of subsidies to commercial exporters. The exporter buys the commodity at the market price, but--because of the subsidy he will be able to collect from the Government --he is able to sell to his overseas customer at the competitive world price, which is generally below the U. S. domestic market price. After export, which is handled through regular trade channels, he receives a supplementary payment from Section 32 funds.

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